

Verizon Florida. TCI agreed to provide Verizon repair services and services were provided on an "as is" basis, without any representation or warranties of any kind. On March 12, 2003, a services agreement was entered into between TCI and Verizon regarding these transactions. Said agreement has been posted to the TCI Section 272 website for public inspection."

- "During the engagement period of January 2001 through September 2002, the following instance describes the provisioning of services prior to the execution of a written agreement or amendment. A written agreement/amendment will be prepared and executed. The following describes the 6th instance:
 - Telecommunications Services - This entails TELUS Communications Inc.'s (TCI) purchase of tariffed local telecommunications services from Verizon New Hampshire, Verizon New York, Verizon Maryland, and Verizon New Jersey between January 1, 2001 and December 31, 2002. TCI has telecommunications agreements with the former GTE LECs but not with the LECs of the former Bell Atlantic. As such, an Amendment #5 to the Amended and Restated Application for Services Agreement will be prepared and executed to cover the provision of telecommunications services to TCI in all the former Bell Atlantic jurisdictions."
5. Using the sample of the agreements obtained in Procedure 4, we viewed each company's web site on the Internet:
- <http://www.baglobal.com/tnzusa/regrequirements.asp> for TNZ USA
 - <http://www.baglobal.com/codetel/> for CICI
 - <http://www.baglobal.com/telus/regRequirements.asp> for TCI

We inquired of management and management indicated that there were no contracts between the Verizon BOC/ILEC and TCQI or CANTV.

We printed copies of the web postings for the 6 written agreements obtained in Procedure 4 above. We compared the rates, terms and conditions of services between the web postings and the written agreements provided in Procedure 4 above and noted no differences.

We compared the execution date to the post date for the web postings for the 6 written agreements and noted the following:

- Management disclosed a list of agreements that were posted after ten days of signing the agreement or the provisioning of the service (Reference Table 36).

Table 36

No.	Agreement/Amendment	Execution Date	Post Date
1	Directory Assistance Agreement	08/15/2000	09/22/2000
2	Service Bureau Agreement	06/23/1998	09/22/2000
3	Extension of Service Bureau Agreement	06/29/2001	11/01/2002
4	Termination of Service Bureau Agreement	10/17/2002	11/01/2002

We noted that each affiliate has made available on its website its procedures for posting contract summaries on a timely basis.

We reviewed the web postings for the following to allow evaluation for compliance with accounting rules (CC Docket No. 96-150, Report and Order, paragraph 122):

- Frequency of recurring transactions
- The approximate date of completed transactions
- Type of personnel assigned to the project
- The level of expertise of such personnel (including the associated rate per service unit)
- Special equipment
- Whether they stated if the hourly rate is a fully loaded rate
- Whether or not the rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs for goods and services priced at Fully Distributed Cost ("FDC")

We noted that the web postings contained the disclosures noted above to allow evaluation with the accounting rules.

6. We requested a listing and amounts of all services rendered by month by the Verizon BOC/ILEC to the former GTE Section 272 affiliates from January 3, 2001 through September 30, 2002. We inquired of management and management indicated that all of these services, except tariffed telecommunications services made available to the former GTE Section 272 affiliates, have been terminated. Tariffed telecommunications services are available to third parties.
7. We requested a listing and amounts of all services rendered by month to the Verizon BOC/ILECs by each former GTE Section 272 affiliate from January 3, 2001 through September 30, 2002. Management indicated that the only services provided to the Verizon BOC/ILECs by the former GTE Section 272 affiliates were Directory Assistance. We inquired of management and management indicated that TCI was the only former GTE Section 272 affiliate that provided Directory Assistance to the Verizon BOC/ILEC. We inquired of management and management indicated that the service was priced pursuant to Prevailing Market Price ("PMP"). We traced the invoice amount to the books of the former GTE Section 272 affiliate and noted no differences. We compared the amount the Verizon BOC/ILEC recorded in its books to the amount the Verizon BOC/ILEC paid and noted no differences.
8. We inquired of management and management indicated that there were no assets purchased or transferred from the Verizon BOC/ILECs to the former GTE Section 272 affiliates from January 3, 2001 through September 30, 2002.

We inquired of management and management indicated that there were no assets purchased or transferred by TNZ USA, TCI, TCQI, and CANTV from another affiliate from January 3, 2001 through September 30, 2002.

Management indicated the following for CICI:

"Most of CICI's communications equipment was lost in the September 11, 2001 World Trade Center tragedy. Because of the urgency of the situation and to facilitate the purchase, GSI purchased the replacement equipment from an outside vendor. Codetel, C. por A., then purchased the equipment from GSI at that time; and in July 2002, CICI purchased the communications equipment from Codetel, C. por A. As is readily apparent, none of these transactions involved a BOC or ILEC."

9. For the former GTE Section 272 affiliates, we requested from management a list of assets and/or services priced pursuant to Section 252(e) or Section 252(f). Management indicated that the former GTE Section 272 affiliates did not purchase any assets and/or services priced pursuant to Section 252(e) or Section 252(f) from January 3, 2001 through September 30, 2002.
10. We inquired of management and management indicated that there were no asset transfers amongst the Verizon BOC/ILECs and the former GTE Section 272 affiliates from January 3, 2001 through January 2, 2003.

Objective VII: The BOC May Not Discriminate Against Any Entity in the Provision of Goods and Services

1. We requested the Verizon BOC's procurement awards to each of the former GTE Section 272 affiliates as well as the bids submitted by each of the former GTE Section 272 affiliates and third parties. Management indicated there were no Verizon BOC procurement awards to CICI, TCQI, CANTV, and TNZ USA from January 3, 2001 through September 30, 2002.

For TCI, management indicated the following:

Verizon Florida purchased plug-in equipment from TCI during the period from January 3, 2001 through September 30, 2002. Occasionally, TCI posts on the Verizon Recovery Operations website (<http://www.verizonro.com>) requests for quotations ("RFQ") for surplus or used equipment it no longer requires and wants to sell. The Verizon Recovery Operations website is a publicly accessible site.

On April 1, 2001, October 3, 2001, March 4, 2002, and June 4, 2002, TCI posted RFQs for used and surplus equipment. Verizon Florida submitted bids on the equipment listed in the RFQs.

- On April 20, 2001, TCI awarded the bid for equipment contained in the April RFQ to Verizon Florida, the highest bidder for the equipment.
 - On October 2001, TCI awarded the bid for equipment contained in the October RFQ to Verizon Florida, the only bidder for the equipment.
 - On March 18, 2002, TCI awarded the bid for equipment contained in the March RFQ to Verizon Florida, the only bidder for the equipment.
 - On June 28, 2002, TCI awarded the bid for equipment contained in the June RFQ to Verizon Florida, the highest bidder.
2. We requested a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in Section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each former GTE Section 272 affiliates by the Verizon BOC. Management indicated that the services the former GTE Section 272 affiliates purchased were NOC services and telecommunications services. For the two services, we inquired of management as to the existence of any media used by the Verizon BOC/ILEC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Management indicated the media used to inform carriers of such items is the Section 272 website, <http://www22.verizon.com/about/publicpolicies/272s/>.
 3. We obtained a list from the Verizon BOC of all unaffiliated entities who have purchased the same goods as the former GTE Section 272 affiliates, (including software), services, facilities, and customer network services information (excludes CPNI) from the Verizon BOC, during October 2001, as selected by the JOT. We inquired of management and management indicated that the only service purchased by both unaffiliated entities and the former GTE Section 272 affiliates was local exchange services. Management also indicated that CICI and TCI were the only former GTE Section 272 affiliates to purchase local exchange services. Reference Appendix A Objective VII Procedures 3 for the sample selection. Using the sample of 94 unaffiliated entities that were local exchange customers during October 2001, we compared the rates, terms, and conditions appearing on the Customer Service Records ("CSRs") of the sampled unaffiliated entities to the rates, terms

and conditions offered to the former GTE Section 272 affiliates during the same time period. We noted two instances where the rate on the unaffiliated CSR did not match or were unable to match the rate on the former GTE Section 272 affiliate CSR (Reference Table 36). We inquired of management and management provided responses explaining the differences as outlined in Table 37.

Table 37

Local Exchange						
No.	USOC	Description	State	Nonaffiliate Rate	Section 272 affiliate Rate	Management Explanation
1*	1MB	IND Message Rate Business	NJ	\$12.96 \$12.77 \$11.76	\$12.96 \$12.77	(1)
2*	9ZR	FCC Line Charge	NY	\$8.08 \$5.00	\$8.08 \$5.00	(2)
1) The different rates for the services are due to customers falling into different rate groups. Rate groups are determined by NPA-NXX and are outlined in the tariff. 2) \$8.08 rate is the multi-line business rate. \$5.00 rate is the single-line business rate. * The CSRs for the unaffiliated entities and/or the Section 272 affiliates had multiple rates for the same USOC. We were unable to determine which rates to compare.						

For the above selection of local exchange services provided to the former GTE Section 272 affiliates, we documented the amount paid to the Verizon BOC for such services during October 2001 (\$1,190.57).

4. This procedure does not relate to transactions between the Verizon BOC/ILECs and the former GTE Section 272 affiliates.
5. This procedure does not relate to transactions between the Verizon BOC/ILECs and the former GTE Section 272 affiliates.
6. This procedure does not relate to transactions between the Verizon BOC/ILECs and the former GTE Section 272 affiliates.

Objective VIII: The BOC Shall Not Discriminate Against Any Entity in the Fulfillment of Requests for Services

1. We inquired of management and management indicated: "There were no services purchased by the former GTE International 272s, CICI, TCI, TCQI, CANTV, TNZ USA, that would be included in the data provided in Objective VIII."
2. Reference Objective VIII, Procedure 1, above.
3. Reference Objective VIII, Procedure 1, above.
4. Reference Objective VIII, Procedure 1, above.
5. Reference Objective VIII, Procedure 1, above.
6. Reference Objective VIII, Procedure 1, above.

Objective IX: The BOC Shall Not Discriminate Against Any Entity in the Provision of Exchange Access Facilities and Services

1. We inquired of management and management indicated that no exchange access services were provided to the former GTE Section 272 affiliates by the Verizon BOC/ILECs in the BOC states that have received Section 271 authority from January 3, 2001 through September 30, 2002.
2. Reference Objective IX, Procedure 1 above.
3. Reference Objective IX, Procedure 1 above.

Objective X: The BOC Shall Impute to Itself the Same Amount for Exchange Access as that Charged Unaffiliated Entities

1. This procedure does not relate to transactions between the Verizon BOC/ILECs and the former GTE Section 272 affiliates.
2. This procedure does not relate to transactions between the Verizon BOC/ILECs and the former GTE Section 272 affiliates.
3. For exchange access services, local exchange services, and unbundled network elements, we requested the total amount the former GTE Section 272 affiliates recorded and paid to the Verizon BOC/ILEC from January 3, 2001 through January 2, 2003. Management indicated that TCI and CICI purchased local exchange services from the Verizon BOC/ILEC from January 3, 2001 through January 2, 2003. Management indicated that no former GTE Section 272 affiliates purchased exchange access or unbundled network elements from January 3, 2001 through January 2, 2003.

For local exchange services, we compared the amounts recorded and paid by TCI and CICI and noted no differences. We requested the amount of revenue reflected in the Verizon BOC/ILECs books for local exchange services from the former GTE Section 272 affiliates. Management was unable to provide the amount of revenue reflected in the Verizon BOC/ILECs books for local exchange services provided to the former GTE Section 272 affiliates. Management indicated the following:

“Verizon East and West records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC’s general ledger systems. These amounts are aggregated on the books of the BOC/ILEC’s to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also matchoff process in place whereby the expenses recorded by the affiliate correspond to the revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses.”

Objective XI: The BOC May Not Discriminate Against Any Entity in the Provision of InterLATA or IntraLATA Facilities and Services

1. We inquired of management and management indicated that no interLATA network services and facilities were provided to the former GTE Section 272 affiliates by the Verizon BOC/ILECs in the BOC states that have received Section 271 authority from January 3, 2001 through September 30, 2002.
2. Reference Objective XI, Procedure 1 above.
3. Reference Objective XI, Procedure 1 above.

Appendix C Enumerates the Follow-up Procedures on the Prior Engagement

The following matters were noted in the prior engagement:

a. From agreed-upon procedures:

PricewaterhouseCoopers analyzed all 839 agreements that were posted on Verizon's web sites and found that not all postings were timely and that there were omissions and inaccuracies in some postings (V&VI-6 in prior report, V&VI-5 in this program).

(i) With regards to whether these matters continued to exist beyond the previous engagement period, reference Appendix A, Objectives V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties for the period January 3, 2001 to September 30, 2002.

(ii) We inquired of management as to what action management took to ensure their non-recurrence or improvement and the effective date. Management indicated the following:

"As a result of Verizon's Year 2000 Section 272 Biennial audit, filed on June 11, 2001, Verizon identified certain issues for additional review, including Verizon's web posting procedures. Management evaluated the existing controls to determine if additional controls or processes were needed. Where opportunities for improvements were identified, an implementation schedule was established and tracked for completion.

- Review and corrective action taken, where necessary.
 - "Verizon's Response to Section 272 Audit Report," included in PricewaterhouseCoopers' Section 272 Biennial Audit Report dated June 11, 2001, describes the web posting omissions and inaccuracies noted in the audit report along with explanations and descriptions of corrective actions. The relevant sections of Verizon's response are in Table 37.
- Reviewed internal controls and processes related to web postings.
 - In August 2001, the 272 affiliates' regulatory and vendor management organizations developed and implemented additional internal controls to ensure the accuracy and timeliness of web postings.
 - Revised web posting procedures were developed, implemented and posted on the Verizon Section 272 websites in late October 2001. The web sites' entries were reviewed to ensure consistency with the updated practices and procedures. Additional internal controls incorporated in the process included:
 - Section 272 Contract Administrator notifies employee with Web posting responsibilities of new agreements or amendments prior to execution date.
 - Section 272 Contract Administrator is responsible for comparing web posting to final executed agreement to ensure consistency.
 - Verizon developed a comprehensive Affiliate Transactions Guideline for contracting services between Verizon ILECs and Verizon non-regulated affiliates (including the 272 affiliates). The Guideline incorporates previously issued contracting and pricing guidelines. The Guideline was finalized and made available on Verizon's intranet in October 2002."

Table 38

Objectives V/VI, Procedure 6, Web Posting	
<p>Issue No. 1. We also printed the web postings of the contract summaries as of September 30, 2000. We compared the rates, terms and conditions of services on the web postings to the written agreements provided in Objective V/VI, Procedure 5 and noted the following:</p> <ul style="list-style-type: none"> • 839 web postings in total (representing 135 written agreements and 51 amendments) of which 459 were posted in 2000 (representing 7 written agreements and 34 amendments); • Rates, terms and conditions for 535 of the 839 web postings were agreed to the written agreements with no exception; • 44 of the 839 web postings contained multiple errors; <p>129 of the 839 web postings contained discrepancies as compared to the written agreements. A list of the 129 web postings is provided in Attachment I, Table No. 2. The 129 web postings represent 11 written agreements and 14 amendments. Management indicated that the discrepancies occurred as a result of administrative errors.</p>	<p><u>129 Web Posting Discrepancies vs. Written Agreements:</u> The FCC's contract posting requirements are complex, requiring a minimum of 13 data entries to be posted for each contract, and frequently many more (even in excess of 100 items for a single contract). Therefore, the 129 errors were out of well over 20,000 data entries. Even when combined with the 68 postings identified in Objective V/VI, Procedure 6, Issue No. 5, the overall web posting error rate is less than 1%. In virtually every case, the errors were the result of minor clerical errors (e.g., minor changes to effective dates, contract periods, etc.) for only one of the data entries on a contract, with no material impact on the overall accuracy of the contract and the associated web posting. Further, it is Verizon's practice to develop contracts to cover all 9 jurisdictions, even though section 271 relief was obtained in only one jurisdiction (New York) at the time the PricewaterhouseCoopers audit was conducted. As a result, Web postings were made to all 9 jurisdictions, resulting in a "multiplier" effect in which 1 error counted 9 times. All warranted corrections have been made.</p>
<p>Issue No. 2. written agreements related to 96 of the 839 web postings were prepared in the form of Access Service Requests, which did not contain sufficiently detailed information necessary to enable us to agree the specific rates, terms and conditions in the written agreements to the web postings (representing 96 written agreements). A list of the 96 web postings related to Access Service Requests written agreements is provided in Attachment I, Table No. 3.</p>	<p><u>96 Written agreements:</u> The Access Service Requests do not contain information about rates, terms and conditions because they relate to access services provided under tariff. The Act requires Verizon to include the rates, terms and conditions for access services in publicly available tariffs. All 96 instances relate to requests by Global Networks, Inc. ("GNI") for access services. Verizon met the section 272(b)(5) requirement for written agreements by executing and posting the Access Service requests (ASRs) from GNI. Verizon currently executes and posts Memorandums of Understanding that cover access services ordered under ASRs.</p>
<p>Issue No. 3. four web postings (representing two amendments) related to access services were not posted on the Section 272(b)(5) websites as of January 2, 2001, but were</p>	<p><u>4 Web Postings not on Web site:</u> As noted in the report, the missing postings were for services provide pursuant to tariff. All missing postings have been added to the web</p>

Objectives V/VI, Procedure 6, Web Posting	
subsequently posted during February 2001. A list of the four web postings is provided in Attachment I, Table No. 4. For three of the four web postings, the original agreements were between Bell Atlantic-New York and the Section 272 affiliates. Management indicated there was an amendment which added an affiliate, which was not a Section 272 affiliate, to the agreements. Management indicated the amendments were originally posted to that affiliates' website and not the Section 272 (b) (5) website since the affiliate added was not a Section 272 affiliate. Management indicated that the fourth web posting between BABS and Bell Atlantic-Maryland was inadvertently excluded from the website.	sites. 3 of the 4 missing postings involved the same discrepancy on three section 272 web sites.

Objectives V/VI, Procedure 6, Web Posting	
<p>Issue No. 4 – 51 Late Web Postings</p> <p>We compared the transaction date to the posting date for the 839 web postings referred to above and noted that 51 web postings (which represent seven amendments) of the 459 contract summaries posted in 2000 were not posted on the Section 272(b)(5) web sites within the required 10 calendar days. Of the 51 web postings, 37 were posted within five days after the required posting date. 9 web postings were posted within six to ten days after the required posting date, and 5 web postings were posted more than ten days after the required posting date. A list of the 51 web postings is provided in Attachment I, Table No. 5. Management indicated that the web postings were not posted within the required period as the result of an administrative error. 408 of the 459 web postings posted in 2000 were posted within the required 10 calendar days.</p>	<p>As noted in the audit report, the 51 late Web postings related to only 7 contract amendments, multiplied by the number of entities and states where the transactions were posted. The majority of the delays ranged from 1 to 10 days.</p> <p>In total of the 839 postings, 94% were posted on time, and 5% were posted between day 11 and day 20. Only five postings (in all cases for minor amendments) were made more than 10 days late. Verizon used the preliminary results of the PricewaterhouseCoopers audit to implement process improvements immediately to ensure that inputs for future web postings are available the same day that the contract is signed. Postings are now being reviewed by at least two persons before being sent for posting, with another internal review conducted within 10 days of the documents being posted, to check for accuracy on the Web site.</p>
<p>Issue No. 5 – 68 Web Postings Did Not Contain Required Disclosure</p> <p>We inspected and noted that 68 web postings (which represent 22 written agreements and six amendments) of the 839 web postings did not contain some of the required disclosures necessary for posting. A list of the 68 web postings is provided in Attachment I, Table No. 6. Management indicated that the omissions of data occurred as the result of an administrative error.</p>	<p>As was the case with the first response above, the changes warranted were very minor in nature, reflecting clerical errors with no material impact on the contracts/web postings. Of the 68 items identified, 32 items were instances where the web posting did not contain a contract renewal clause but all of the material terms and conditions of the contract were included and correct. Of the remaining items, 34 had “TBD,” or “To Be Determined,” in the pricing information. Of these 34, 25 TBD postings were inserted in postings for states for which Verizon had not yet received long distance authority and therefore the contracts could not yet be operative. The remaining 9 TBD postings were for services that were not applicable to the jurisdiction included in that posting. Even treating all 68 items as “errors” and combining with the items identified in Objectives V/VI, Procedure 6, Issue No. 1, however, there is a web posting error rate of less than 1%.</p>
<p>Objective IX, Procedure 2 – Web Posting Issues repeated from Objective V/VI, Procedure 6</p>	<p>See management Response to Objective V/VI, Procedure 6.</p>

b. From agreed-upon procedures:

The results of some performance measurement data examined in the course of the audit raised issues concerning compliance with the requirements in Section 272(e)(1). This Section requires that Verizon's BOC/ILECs complete requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (VIII-3 in prior report, VIII-4 in this program).

- (i) With regards to whether these matters continued to exist beyond the previous engagement period, reference Appendix A, Objectives VIII, Procedure 4 for the results of the procedure agreed to by the Specified Parties for the period January 3, 2001 to January 2, 2003.
- (ii) We inquired of management at to what action management took to ensure their non-recurrence or improvement and the effective date. Management indicated the following:

"In the 2000 Biennial audit, Verizon identified certain issues for additional review, including exchange access service measures for PIC and special access. Management evaluated the controls in place and determined if additional controls or process were needed. Where a need for improvements was identified, Verizon implemented various improvements as described below. Verizon continues to review results to determine the need for further improvements, if any.

In addition to the following response, Verizon's description of the data and explanation of what caused the shorter intervals for these measures is included in 'Verizon's Response to Comments on Biennial Section 272 Audit Report filed on June 10, 2002. These comments are attached (Reference Attachment E).

PIC Measures

Verizon's 272 (e)(1) measurement process determines average PIC change performance, measured as interval of carrier initiated PIC changes from the time of receipt of carrier- initiated change to the time of completion at the switch.

Accuracy of the Measure

Verizon formalized accountability for the PIC interval measurement. The responsible parties then reviewed and documented all process flows to assure the measures were complete and accurate. During the review process, Verizon identified two vendors hired by a Section 272 affiliate that were not included in the Verizon carrier-initiated PIC intervals. Action was taken to modify the coding of these vendor orders and the data was included from July 8, 2002 forward.

Data Retention

For the first four months after Verizon was granted LD authority, volumes for carrier initiated PIC changes were zero or extremely low and data was not reported in the prior audit. Though this had no impact on the assessment, to assure all data, including transaction level support, was retained for the current audit, the data retention obligations were reinforced through oral and written communications to the responsible parties. All files for the current audit were archived.

Data Results

The PIC results showed instances where the service interval provided to the Section 272 affiliates was shorter than the service interval provided to nonaffiliated carriers. A review of the root causes of these differences was completed and did not identify instances where treatment of Verizon's Section 272s affiliates for carrier-initiated orders that was different than the treatment of other nonaffiliates. These results were filed with the attached Reply comments. The core reason for the differences, as noted in this reply was:

"The processing times for PIC change orders may, however, be affected by the time of day that a carrier submits them. The BOCs schedule "down time" for XEA each night between the hours of 9:00 PM and 1:00 AM for necessary maintenance on the system. In addition, the BOCs schedule down time for switch maintenance in the late evening and early morning hours. During the down time periods, XEA pulls the files and holds them in queue according to the time they were received. At the end of the down time period, XEA processes the PIC change orders in the queue. A carrier that submits PIC change orders to XEA shortly before or during the down time periods would experience longer processing intervals than a carrier that submits them earlier in the day. Verizon has informed the interexchange carriers about the down time periods in each area and the possible impact on PIC change processing intervals. Carriers can avoid the down time simply by submitting their PIC change orders to avoid this period. However, to our knowledge this issue has never come up, presumably because the PIC processing intervals easily surpass the 24 hour standard even if the carrier submits them during the down time."

Verizon concluded no changes to the process were needed. Management is tracking more closely the monthly results to identify unexpected activity, but none has been noted to date.

Special AccessAccuracy of the Measure

The prior audit noted only one issue regarding accuracy for special access. For the repair interval two ACNAs that were included in the nonaffiliated measure should not have been included. Efforts were undertaken with the responsible parties to assure the processes that direct results for each ACNA were improved. Of the many thousand transaction records provided during the current audit, we are only aware of one transaction record where there was a missing ACNA and the transaction record could not definitively be identified as a nonaffiliate record because the circuit has been subsequently disconnected.

In addition Verizon was aware of several metrics accuracy issues that had arisen in the separate independent audit review of the special access merger Condition 19 that are described in that audit report. Controls instituted in that proceeding strengthened Section 272 controls. All material data accuracy issues (whether identified by the independent auditor or found by Verizon and communicated to the independent auditor) were remediated.

Data Retention

In two instances (Trouble Reports and Average Repair Intervals) the measure was not available for January through March 2000. The report also notes that in some cases certain transaction level data was not available to produce reports. To assure all data, including transaction level support, was retained for the next audit these obligations were reinforced through oral and written communications to the responsible parties. Activities in the merger audit to assure retention of data for Condition 19 further reinforced the message to the responsibility parties. No problems with special access data retention have been identified in the current audit.

In addition Verizon was aware of several data retention issues that had arisen in the separate independent audit review of the special access merger Condition 19 that are described in that audit report. Specific retention procedures were specified through actions on Merger Condition 19 and communicated again to all data providers and data reporters. Controls instituted in that proceeding strengthened Section 272 controls

Data Results

In the 2000 audit in some cases the installation and trouble report intervals were longer than for the Section 272 affiliate than for nonaffiliates. The reports included only 153 special access installation orders and 9 trouble tickets. A comparison of services provided to Section 272 affiliates to service provided to nonaffiliates was done to better understand the reasons for the differences. The results of these assessments were filed with the attached Reply comments. These comments note:

“In practically all months, there were a dozen or fewer installation orders for BOC affiliates, compared to thousands for nonaffiliates. No statistically significant conclusion can be drawn from data for such small population sizes. The Commission has stated numerous times that a difference in performance between affiliates and nonaffiliates must be statistically significant to be relevant to the issue of discrimination.” and

“In addition, the results of the performance data cannot be attributed to the BOC alone. When a customer requests special access service, it is responsible for performing certain “make ready” activities at its premises, including providing space, power, and access for certain special access arrangements. Also, the customer may request longer due dates, may submit orders that are part of projects that span long periods of time, and may extend originally requested installation dates on specific circuits based on changes in their plans and capabilities. The raw data do not indicate whether the differences, even if statistically significant, are attributable solely to Verizon’s performance or reflect other customer-specific factors.”

Verizon established and followed practices, procedures and policies to fulfill requests from nonaffiliates for exchange access within a period no longer than the period in which they provide such exchange access to Section 272 affiliates. None of the analyses identified treatment of our 272s for like orders that was different than the treatment of nonaffiliates and consequently no changes in processes or treatment of our Section 272s or carrier customers related to special access services were found necessary in order to comply with the Section 272 (e)(1) obligation.

The 2001/2002 audit shows similar data patterns and Verizon is assessing these results.”

c. From agreed-upon procedures:

The seven performance measurements provided to auditors for examination are not the same as the six performance measurements that Verizon, in its application for Section 271 authorization in New York State, demonstrated that it would maintain for evaluating the BOC's compliance with its Section 272(e)(1) nondiscrimination obligations (VIII-3 in prior report, VIII-4 in this program).

- (i) With regards to whether these matters continued to exist beyond the previous engagement period, reference Appendix A, Objectives VIII, Procedure 4 for the results of the procedure agreed to by the Specified Parties for the period January 3, 2001 to January 2, 2003.
- (ii) We inquired of management as to what action management took to ensure their non-recurrence or improvement and the effective date. Management indicated the following:

"In its Observation attached to the 2000 biennial audit report, the Federal/State Joint Oversight noted performance measurements required for Objective VIII, Procedure 3 are different from the performance measurements that Verizon stated it would maintain in its section 271 application for New York. In its June 10, 2002 reply to comments on the audit report, Verizon explained that, during the preparations for the 2000 biennial audit, Verizon proposed to the Federal/State Joint Oversight Team and to the auditor that it would provide comparative performance data in the format described in Verizon's Section 271 application for Massachusetts, filed in September 2000 (Reference Attachment E). This format addressed the same measurement categories as described in the New York section 271 application, at the same level of detail, while being more closely aligned with the performance data reported in the Commission's automated regulatory management information system ("ARMIS") reports.² Under section 53.211 of the Commission's rules, the Joint Oversight Team reviews the audit plan. In addition, the Joint Oversight Team and the BOCs are the "users" who specify the procedures to be followed by the auditor in an agreed-upon procedures engagement. *See* General Standard Procedures, ¶ 2. Since no user disagreed with the usefulness of the format proposed by Verizon, the auditor used it in carrying out Procedure 3 of Objective VIII.

The agreed-upon procedures are established for each Biennial Section 272 Audit. For the next audit, covering the 2001 through 2002 period, the users again examined the performance measurements to be developed for Objective VIII, Procedure 3.

Verizon met with the Joint Oversight Team several times in 2002 and proposed that audit be done using the same measures for all states, including New York. The Joint Oversight Team concurred with this procedure. (See Joint Oversight Team Objective VIII, Procedure 4 issued December 19, 2002.) Therefore, Verizon is required to provide to the auditors performance data in this format."

² *See Application of Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) And Verizon Global Networks Inc., For Authorization to Provide In-Region, InterLATA Services in Massachusetts, CC Docket No. 00-176 (filed Sep. 22, 2000), Declaration of Susan Browning, Attachment Q.*

d. From agreed-upon procedures:

The BOC continued to provide real estate services to Bell Atlantic Global Networks, Inc. (BAGNI), one of Verizon's 272 affiliates, after the agreements/contracts for the services had expired (V&VI-5 in prior report, V&VI-4 in this program).

- (i) With regards to whether these matters continued to exist beyond the previous engagement period, reference Appendix A, Objectives V/VI, Procedure 4 for the results of the procedure agreed to by the Specified Parties for the period January 3, 2001 to September 30, 2002.
- (ii) We inquired of management as to what action management took to ensure their non-recurrence or improvement and the effective date. Management indicated the following:

“As a result of Verizon's Year 2000 Section 272 Biennial audit, filed on June 11, 2001, Verizon identified certain issues for additional review after the audit was released, including real estate leases. Management evaluated the controls in place and determined if additional controls or processes were needed. Where improvements were identified an implementation schedule was established and tracked for completion. Specific steps completed related to real estate leases between 272 affiliates and the Verizon BOC/ILECs and timing of these steps included:

- Review and corrective action taken on two leases identified in audit as requiring renewals – see Corrective Action below
- Development of written internal controls to ensure lease renewals executed according to lease requirements– completed by 9/24/01
 - A single point of contact within each 272 entity responsible for lease review and renewal was established and a monthly review of leases was implemented. As part of the initial implementation of revised internal controls, the Real Estate Organization reviewed all leases between 272 affiliates and the BOC/ILECs and identified all leases requiring written notification of intent to renew within 60 days – completed by 10/15/01

Corrective Action

5 Davis Farm Road, Portland, ME

For the Portland, ME location, Verizon corrected the situation by requiring BAGNI, pursuant to Article 2.3 of the original lease agreement, which expired on September 14, 2000, to provide written notice of its intention to extend the lease agreement. On July 27, 2001, BAGNI provided written notice of its intent to extend the agreement for the Portland, ME location for an additional 2 year period ending September 14, 2002.

770 Elm Street, Manchester, NH

For the Manchester, NH location, the original lease agreement expired on September 14, 2000. However, an amendment to the lease agreement had been executed on June 15, 2000 extending the lease term to September 15, 2002.

On November 25, 2001, BAGNI assigned both lease agreements to Verizon Internet Services, Inc. (“Verizon Online”) and transferred the equipment in those locations to

Verizon Online. On March 31, 2002, BAGNI, Verizon Online, and Verizon New England executed Amendment #1 to the agreement for the Portland, ME location extending the lease term for Verizon Online to September 14, 2003.”

e. From agreed-upon procedures:

Verizon was unable to provide data necessary to determine Fair Market Value (FMV) at the unit charge level for 49 of 70 transactions selected for examination to determine whether charges made were based on the appropriate Commission-required pricing method--Fully Distributed Cost ("FDC") or FMV. Also, the Section 272 affiliate was charged an amount other than FDC or FMV for 9 of the 70 transactions examined (V&VI-9 in prior report, V&VI-6 in this program).

- (i) With regards to whether these matters continued to exist beyond the previous engagement period, reference Appendix A, Objectives V/VI, Procedure 6 for the results of the procedure agreed to by the Specified Parties for the period January 3, 2001 to September 30, 2002.
- (ii) We inquired of management as to what action management took to ensure their non-recurrence or improvement, and the effective date. Management indicated the following:

"As a result of Verizon's Year 2000 Section 272 Biennial audit, filed on June 11, 2001, Verizon identified certain issues for additional review after the audit was released, including reviewing pricing for transactions between the Verizon BOC/ILECs and the 272 affiliates. Management evaluated the controls in place and determined if additional controls or processes were needed. Specific steps completed related to review of pricing of transaction between 272 affiliates and the Verizon BOC/ILECs and timing of these steps included:

- Review and corrective action taken, where necessary.
 - In the June 11, 2001 audit report, Verizon responded that Verizon made a good faith effort to attain FMV by hiring a third party vendor (Mitchell & Titus, LLP) to provide FMV for unique system components. As a result, Verizon used FDC in place of a FMV that did not exist for the unique system components.
 - Services in Ref #'s 1-26 in Table 10 in the 2000 Section 272 Biennial Audit Report are no longer provided as a discriminatory joint marketing service by the Verizon BOCs. They are now being provided by VADI as a non-discriminatory service at a prevailing market rate; the agreement for this service is dated Nov. 21, 2001.
 - For the remaining services in Ref #'s 27-34 in Table 10, a study was performed to determine FMV using prices for generic data processing services, since market prices for the same type of service order processing services provided by the BOCs were not obtainable. Based on the result of the study, the FMV was still less than the FDC therefore, the services are billed at FDC, as was the case in the last audit. No adjustments are needed. For the 9 of 70 items identified in Table 11 of the 2000 Section 272 Biennial Audit Report identified as being billed at other than FDC or FMV, the contract was correct, as was the web posting. In billing the affiliates for the service, the rates from the contract/posting were not applied due to an administrative error. This situation was corrected through an invoice that was issued to the Section 272 affiliate in April, 2001 to true-up the amount billed in 2000 and the contract rate.

- Reviewed internal controls and processes related to pricing of affiliate transactions between Verizon BOC/ILECs and affiliates. Pricing guidelines were issued and made available to all employees on Verizon's cww in March 2002.
- Expanded version of Affiliate Interest Training Package developed to include pricing requirements. Training delivered to Verizon employees responsible for transactions between the Verizon BOC/ILECs and the 272 affiliates in November and December 2001."

Procedures for Subsequent Events

1. We inquired of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. Management indicated the following:

"Management has not identified any major changes to processes and procedures that would have changed the way data would have been provided for the audit, since the time of execution of these procedures and the end of the engagement period."

2. We inquired and obtained written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Management indicated the following:

- "On March 4, 2003 Verizon entered a consent decree with the FCC concerning its compliance with Section 272 (g)(2) of the Act. Verizon provided PricewaterhouseCoopers with a copy of this decree during the audit. In its disclosure of this matter to PricewaterhouseCoopers, Verizon noted that the matter is outside the scope of the Section 272 biennial audit as defined in CFR 53.209 (and as further described in CC Docket No. 96-150, para. 198) which limits the audit to Verizon's compliance with Sections 272 (b), 272(c), and 272 (e) of the Act."
- Federal Complaint EB-01-MD-007
"The Federal Communications Commission granted in substantial part complaint number EB-01-MD-007 brought by Core Communications against Verizon Maryland Inc., alleging that Verizon violated the Communications Act and Commission rules by failing to interconnect with Core on reasonable terms in the Washington metropolitan area for four months. Under Commission rules, Core may now file a supplemental complaint against Verizon for damages. On May 23, 2003 Verizon filed a Petition for Reconsideration of the Commission's Memorandum Opinion and Order."

Objective VIII: Performance Measure Results

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